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Assignment No. AF2002/27/6 AF2002/27/6

To: Mr. Rolf G. Knutsson, Executive Secretary
United Nations Compensation CommissionFrom:  Dagfinn Knutsen, Chief
Iraq Program and Pension Section, IAD/OIOS

Subject: Processing of "D" Claims – problems and suggestions

The recommendations set out below are submitted for your consideration. Please comment on them and where appropriate, specify the corrective action taken or provide a planned implementation schedule. When commenting please refer to the Assignment No. listed above and to the recommendation number in parenthesis in order to facilitate monitoring of its status (timely response, acceptance, implementation). Please reply by 15 July 2002.

Audit Observations and Recommendations

1. UNCC encountered problems and delays in finalizing part one of the twelfth and the thirteenth instalment of D Category claims. Hence VVSB and LSB analysed the reasons for this delay, have taken steps, and proposed review of procedures so that these issues do not recur in the future instalments.
2. UNCC requested that OIOS look into the diagnostic analysis to determine if the action taken and proposed, by LSB and VVSB, address the issues raised by VVSB's so called Internal Audit on the problems in closure of D Category claims.
3. OIOS reviewed the following correspondence relating to the problems in closure of D Category claims twelfth (part one) and thirteenth Instalments:
 - VVSB memo dated 21 March 2002 (with attachments) and
 - LSB memo dated 06 May 2002 (with attachments)

Issues raised by VVSB Internal Audit

4. OIOS observed that the VVSB Internal Audit had raised a number of issues, which have a serious impact on the processing and closure of D claims as summarized below.
 - The audit team did not have enough time to conduct its work;
 - The internal audit function is not truly independent;
 - Established procedures are not being complied with;
 - Changes are being made to the database both during and after the conduct of Article 38 audits;

- The absence of key personnel during the audit process;
- Valuation carried out by LSB;
- Deadline default denial brought on by not attaining sometimes unfeasible targets;
- Changes were made to valuation post application audit; and
- The database was not perceived as the definite record until the report stage of an instalment

Action taken by UNCC LSB and VVSB

5. UNCC LSB responded to the concerns of the VVSB Internal Audit. They did not agree with some of the issues and provided justification for others. The steps taken and proposed to be taken by VVSB and LSB to prevent recurrence are summarized below:

- Additional staff provided to Internal Audit for 6 months to clear the backlog;
- LSB proposes moving back signing dates for certain instalments; and
- LSB along with VVSB & ISS propose to review the procedures for processing claims and other recurring problems faced in valuating applications and the database.

OIOS Observations and Recommendations:

6. OIOS is concerned with the nature and the number of issues raised by VVSB Internal Audit regarding the claims processing and closure. Some of the problems like absence of resources, coordination, etc. are typical in any organization. However other issues such as Internal Audit not being an independent quality assurance process, procedures not being complied with, etc. are serious and may affect the objective, independent and transparent processing of claims. This has raised serious concerns about the claim processing – but for the fact that:

- (i) According to VVSB Internal Audit, - the “cumulative error rate” is approximately 0% for LSB and 1% for VVSB; and
- (ii) OIOS review of “D” Category claims in 2001 revealed that there were adequate internal controls over claims processing.

7. The issues and concerns outlined by VVSB Internal Audit infers that even though claims are processed in an effective manner –the management process is not efficient and needs improvement.

8. The steps taken and proposed to be taken by LSB and VVSB appear to be appropriate. We hope that the review of the procedures would identify the deficiencies and systems implemented for a more efficient management of the process.

9. In addition to the management process deficiencies and solutions taken and proposed by UNCC, OIOS believes that the status of internal audit, monitoring of claims processing and ISS issues need to be addressed to strengthen management of claims processing operations.

10. OIOS considers that the use of the name VVSB Internal Audit is not very appropriate. This Unit is essentially involved in ensuring a quality check of the VVSB and LSB deliverables. Even the Category D Claims - Proposed Audit Strategy (dated 21 July 2000) stipulate that its objective “is to provide independent quality control on VVSB deliverables”. Since the VVSB Internal Audit review is a quality check to ensure the correct application of

valuation methodologies and not an audit of all issues involved, it may be preferable to rename it as Quality Assurance. This name may also cause some confusion with OIOS, Internal Audit Division, especially for third parties.

We recommend that UNCC rename the "Internal Audit Unit" as the "Quality Assurance Unit" (AF02/26/1/101).

Organizational status of quality control should be strengthened

11. LSB asserts that the valuation and verification of the category "D" Claims has become more challenging as the number of claims and the number of "special consideration" claims in each instalment has increased significantly. Hence, a quality assurance programme is crucial for claims processing.

12. We agree with the VVSB's concern - that the current function is not "truly independent". In the present organizational set-up, the Unit both reviews the work of and reports to Chief, VVSB. Further, it also appears that it does not have complete independence over the review of LSB claims.

13. In order to insure an independent quality assurance process, it is necessary that the Unit is independent of the Claims Processing Division and is placed in the Executive Office so that it reports directly to the Executive Secretary rather than to Chief VVSB.

We recommend that VVSB quality assurance unit should be independent of the Claims Processing Division and report directly to the Executive Secretary rather than to Chief VVSB (AF02/26/1/102).

ISS View of the Database Problems

14. It appears that VVSB and LSB waste a lot of time with database and spreadsheet problems. This can have serious repercussions on the overall integrity of the UNCC database regarding the claims. LSB has proposed that they will revisit with ISS these issues. OIOS considers that just as VVSB and LSB have expressed their perspective of the problems, similar opportunity be afforded to ISS to state their views of the reasons for the database and spreadsheet problems.

We recommend that ISS explain the reasons for the database and spreadsheet problems experienced by VVSB and LSB and propose appropriate solutions (AF02/26/1/103).

Regular Monitoring

15. With the report signing dates proposed to be moved back a couple of months - and measures proposed to address recurring problems, there is no reasons for non-compliance with established procedures. It would therefore be preferable if the progress of claims processing is monitored on a regular basis, and if the Claims Processing Division has concerns that the target signing dates will be missed it should bring this to the notice of the Executive Secretary promptly for appropriate action.

We recommend that UNCC monitor the processing of D Category claims and if there are concerns that the target signing dates will not be met, this should be promptly brought to the notice of the UNCC, Executive Secretary for appropriate action (AF02/26/1/104).